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No. 14-1513

In the Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC.,
PULSE ELECTRONICS CORPORATION,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

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INTRODUCTION

Pulse's response focuses on labels like "willful" and "punitive" to justify the *Seagate* standard. But the fact remains that Pulse's conduct—by whatever label—exemplifies the level of culpability that has historically merited enhancement. Pulse learned of Halo's patents in 1998 and copied them without deciding it had any legal basis to do so. Pulse received two letters from Halo but ignored them. A Pulse engineer testified at trial about an alleged investigation in 2002 (years after the copying began), but Pulse admitted it was "cursory" and never relied upon. The jury thus found that Pulse acted in subjective bad faith, with a belief that the patent was infringed and valid.

Pulse's conduct makes this what the United States describes (at 18) as the "paradigmatic" case for enhancement under this Court's precedent. But the district court could not consider enhancement because, under *Seagate* and its progeny, it found that Pulse's trial defense was not objectively baseless or a sham. No case from this Court, however, required that the infringer's conduct be objectively baseless, much less judged a defendant based on facts that were not before it at the relevant time. Precedent focused instead on the defendant's subjective beliefs and acts at the time, and made "bad faith" infringement a separate category of enhancement. Punitive damages law is in accord, permitting punishment for intentional bad acts like Pulse's.

So Pulse's labels provide no basis to ignore the statutory text or this Court's criticism in *Octane* of the Federal Circuit's similarly-rigid test for § 285. District courts should thus have discretion to consider and balance all the relevant facts in deciding whether the enhance damages under § 284.

ARGUMENT

I. Section 284 Provides Discretion to Enhance Damages in Egregious Circumstances, Even If There Is a Non-Sham Defense.

A. The "Willful" Label Is Not a Prerequisite for Enhancement.

The core of Pulse's response subjugates the statutory text to its history, and then misstates that history. Pulse focuses on the "willful" label because, without it, there would be no basis for the rigid two-part test that the Federal Circuit purported to borrow from *Safeco*. Halo agrees that the statute should be interpreted consistently with its history. But historically, courts flexibly considered all the relevant facts without a rule that any particular fact would have determinative weight in all cases.

1. Both pre- and post-1952 precedent from this Court and others broadly permitted enhancement for various kinds of culpable conduct beyond mere negligence, without imposing any single formulation or bright-line limitation. *See, e.g., Dean v. Mason*, 61 U.S. 198, 203 (1858). Enhancement was appropriate, instead, "whenever the circumstances of the case appear to require it." *Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888). For example, this Court would have enhanced where an infringer who worked for the patentee opened up a rival infringing business and took away customers, *Topliff v. Topliff*, 145 U.S. 156, 174 (1892), even though the validity of one patent was "by no means free from doubt," *id.* at 164, and the other patent had prior art that "approached very near the

[same] idea" and "might, by a slight modification" be used to make the invention. *Id.* at 161.*

The cases Pulse cites simply distinguished between the guilty "wanton and malicious pirate" and the innocent "defendant who acted in ignorance or good faith," but none said that ***only*** "wanton" or "willful" infringement could trigger enhancement. *Seymour v. McCormick*, 57 U.S. 480, 488 (1854); *see also Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964); *Dowling v. United States*, 473 U.S. 207, 227 n. 19 (1985). Indeed, *Seymour* stressed that enhancement was "committed to the discretion and judgment of the court." *See* 57 U.S. at 488-89. And *Aro* noted, using open alternative language, that enhancement can be based on "willful ***or*** bad-faith infringement." 377 U.S. at 508 (emphasis added). Pulse's cases only show that "willful" infringement is a notable, but not exclusive, enhancement factor.

Any lower court decisions that limit enhancement to "wanton" infringement, of course, cannot trump this Court's broader pronouncements. The regional circuits used various labels to identify culpable conduct, and some decisions explicitly declined to make "willful" infringement a prerequisite to enhancement. *See* Halo Br. at 16 n.‡ (collecting cases). That persistent circuit split further demonstrates that this Court's precedent did not make "willfulness" a prerequisite to enhancement. It also shows that Congress could not have ratified a "willfulness" constraint on the otherwise flexible statutory text.

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* Pulse cannot distinguish *Topliff* simply because it involved two patents. The validity of both patents was dubious, and the Court did not limit its comment in any way, suggesting it applied equally to both.

2. Pulse gets no help (at 21-25) from the legislative history of *other* statutes. One Senator's comments on the 1992 Patent and Plant Variety Protection Remedy Clarification Act are of little use because the courts have "eschewed reliance on the passing comments of one member." *Garcia v. United States*, 469 U.S. 70, 76 (1984). Statements in a 1997 Committee Report on a bill involving remedies for provisional patent infringement were unexplained stray comments made years after the 1952 Patent Act enacted the enhanced damages provision of § 284 and are irrelevant to what the prior Congress intended. *See, e.g., United States v. Price*, 361 U.S. 304, 313 (1960) ("[T]he views of a subsequent Congress form a hazardous basis for inferring the intent of an earlier one."). Moreover, that bill simply provided that enhanced damages were not available for the period before a patent issues—it did not attempt to address the appropriate standard for enhancement for infringement after the patent had issued. At most, the Committee's comments simply reflected that the Federal Circuit had by then made "willfulness" a prerequisite to enhancement in *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996), but do not show Congress endorsing or ratifying that pronouncement.

Likewise, the discussion by individual Senators of provisions that were not incorporated into the 2011 America Invents Act shed no light on the proper standard for enhancement, because there is no evidence of why Congress, as a whole, declined to enact those provisions. *See, e.g., Price*, 361 U.S. at 310-11 (1960) ("[N]on-action by Congress affords the most dubious foundation for drawing positive inferences.").

Pulse's reliance on the newly-enacted 35 U.S.C. § 298 also fails to prove that willfulness is the only

prerequisite to enhancing damages. Pulse admits (at 25) that § 298's "text" is "consistent" with "a regime that treats willfulness as sufficient but not necessary to authorize increased damages," and Halo agrees. The other legislative history is ambiguous, because Congress's refusal to codify the *Seagate* standard equally signals the dissatisfaction of some members with it. So § 298 does not abrogate either the flexible text of § 284 or this Court's precedent that permits enhancement for other purposes.

B. Even Decisions Addressing "Willful" or "Wanton" Infringement Did Not Impose *Seagate*'s Rigid, Two-Part Test.

Although courts used a variety of labels for culpable conduct (*e.g.* "wanton," "malicious," "willful," or "bad faith" infringement), none imposed anything like *Seagate*'s two-part objective/subjective requirement. These decisions instead hold only that enhancement for punitive purposes must be based on culpable conduct beyond mere negligence or accident.

1. Courts before *Seagate* considered all relevant facts, focusing particularly on each defendant's subjective acts and knowledge. For example, although infringement can be a strict liability tort, an infringer that did not know about the patent pre-suit could not be subject to trebling—accidental infringement does not suffice. *Hogg v. Emerson*, 52 U.S. 587, 607 (1850). Likewise, an infringer's contemporaneous good faith beliefs and actions were balanced against other evidence of bad faith in determining whether to enhance. *Livingston v. Woodworth*, 56 U.S. 546, 560 (1853) (enhancement not appropriate where the infringer was acting under the subjective belief that its conduct was protected by another patent, but then immediately consented to an injunction and damages once it

learned it was wrong); *Corning v. Burden*, 56 U.S. 252, 271 (1854) (holding an infringer could introduce evidence of its own patent to show that "his machine is new, and not an infringement" and noting that it showed, at a minimum, the infringer's "good faith"). No decision superimposed a requirement that the infringer's position must be objectively baseless before enhancement can even be considered. In fact, *Topliff* demonstrates that enhancement can be appropriate when other evidence of bad faith (copying, stealing customers) outweighs the closeness of the case.

Consistent with this precedent, a contemporaneous treatise recognized that an infringer whose conduct was beyond mere negligence could be subject to enhancement. *See* Albert H. Walker, TEXTBOOK OF THE PATENT LAWS OF THE UNITED STATES OF AMERICA § 567 (2d ed. 1889) (explaining that enhancement "will be exercised where the defendant's infringement was deliberate and intentional, even though it may have been committed under an erroneous opinion of the plaintiff's rights"). The key was to balance all the facts. Bad faith behavior like copying and targeting the patentee's customers might outweigh mitigating circumstances like the existence of a defense. *See* United States Br. at 19 n.15 (collecting examples). So "willfulness" was just a shorthand for any conduct that exceeded mere negligence, consistently with how this Court sometimes used it in other civil contexts. *See, e.g., United States v. Illinois Cent. R.R. Co.*, 303 U.S. 239, 242-43 (explaining that "willfully" "often denotes that which is intentional, or knowing, or voluntary, as distinguished from the accidental"). The United States ably explains (at 27-28) how "'willful' and its variants [were used] to refer to a range of egregious bad-faith and morally blameworthy conduct that especially deserved punishment."

Lower court decisions also enhanced when an infringer's culpable conduct exceeded mere negligence and outweighed the fact that it posed a colorable defense. The best of those decisions eschewed legal labels and focused on the facts at bar—Judge Learned Hand put it succinctly: "'Wanton' is somewhat a word of rhetoric. I do not know just what the decisions mean when they use it; but the facts are as follows...." *Consolidated Rubber Tire Co. v. Diamond Rubber Co.*, 226 F. 455, 463 (S.D.N.Y. 1915), *aff'd* 232 F. 475 (2d Cir. 1916). He proceeded to enhance, explaining that, although the infringer presented a defense that it sincerely "hoped might prove effective," this was not dispositive because "it is not necessary that an infringer should absolutely know that he has no rights." *Id.* at 465. The infringer's behavior was "certainly an evasion," regardless of "whether or not it could eventually be defended." *Id.* In addition, the infringer had concealed evidence and engaged in "deviousness throughout ... its persistent effort to suck the value from the invention." *Id.* So Judge Hand enhanced in a sum "which should be enough to pay the costs of the litigation and give the plaintiffs smart money." *Id.* His reasoning thus endorsed enhancement where the infringer was more than just negligent yet might have had a colorable trial defense.

2. This Court has also made clear that an infringer's "bad faith" conduct can justify enhancement independently of any inquiry into objective recklessness. *See, e.g., Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) ("[I]t could in a case of willful ***or*** bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision.") (emphasis added). Many of Pulse's cited cases are consistent with this approach, because

they focus on what the infringer subjectively believed and did, not on any abstract objective inquiry.

For example, the regional circuits that used the "willfulness" label affirmed denials of enhanced damages where the infringer had actually investigated and relied upon a defense before it began infringing. *See Eltra Corp. v. Basic, Inc.*, 599 F.2d 745, 757 (6th Cir. 1979) (infringer stopped paying royalties after learning another competitor thought the patent was invalid, and then promptly obtained and relied upon its own legal opinion); *Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960) (infringer obtained and relied upon legal guidance before it started selling its product); *Wilden Pump & Eng'g Co. v. Pressed and Welded Prods. Co.*, 655 F.2d 984, 989 (9th Cir. 1981) (same); *Baumstimler v. Rankin*, 677 F. 2d 1061, 1073 (5th Cir. 1982) (infringer actually knew about close prior art).

Even then, the fact an infringer presented a strong trial defense was not a *per se* bar to enhancement. For example, although *Baumstimler* remarked that a court "should be *more reluctant* to impose punitive damages" if validity is "close and litigated in good faith," it did not hold that enhancement was off limits in such a case. 677 F.2d at 1073. The Court instead remanded for a new trial (due to errors on other issues), while leaving open the possibility of enhancement, even where validity there was "certainly ... close." *Id.* If the presence of a defense were a *per se* bar (as Pulse argues), then *Baumstimler* would not have remanded the willfulness issue for further consideration. Instead, *Baumstimler* left it to the district court to balance all the relevant facts.

Likewise, *B.F. Goodrich v. Consolidated Rubber Tire Co.*, 251 F. 617 (7th Cir. 1918), affirmed a denial

of enhancement where the circuits had been split on a patent's validity but added that "[w]e are not willing to announce any hard and fast rule that good faith exists because a favorable decision in some court is obtained," and cited Judge Hand's enhancement decision against a different infringer on the same patent with approval. *Id.* at 625. If the Seventh Circuit was unwilling to categorically prohibit enhancement even where another circuit had *actually invalidated* the patent, then it certainly did not equate "willfulness" with a standard that would preclude enhancement as long as there were any non-sham defense.

Pulse's cited district court decisions are to the same effect—most focused on an infringer's actual beliefs and actions when it infringed. *See Brodie v. Ophir Silver Mining Co.*, 4 F. Cas. 202, 203-04 (C.C.D. Cal. 1867) (no enhancement where the infringer stopped infringing after learning of the patent); *Buerk v. Imhaeuser*, 4 F. Cas. 594, 595 (C.C.S.D.N.Y. 1876) (no enhancement where the infringer was manufacturing under its own patent and thus believed its conduct lawful); *Guyon v. Serrell*, 1 Blatchf. 244, 246 (C.C.S.D.N.Y. 1847) (no enhancement after balancing evidence undermining good faith with the fact that an error in the patent may have misled the infringers and they stopped infringing before the suit). Another was a passing comment in a jury instruction in a case that did not actually involve enhancement and where, in any event, the defendant held a good faith belief. *Carr v. Rice*, 5 F. Cas. 140, 145 (C.C.S.D.N.Y. 1856). The other opinions are too cryptic to show what the parties actually argued or the basis for the court's decision. Importantly, none held that an infringer who acted in subjective bad faith could avoid enhancement by pointing to a defense that it had not actually relied upon at the time it was infringing.

3. Lacking support in the *facts* of prior cases, Pulse instead extracts the "willfulness" label and pairs it with the particular test for a "willful" violation of the Fair Credit Reporting Act articulated in *Safeco Ins. Co. v. Burr*, 551 U.S. 47 (2007), which in turn cited *Farmer v. Brennan*, 511 U.S. 825 (1994). But *Safeco* acknowledged that "'willfully' is a word of many meanings whose construction is often dependent on the context in which it appears." 511 U.S. at 57. And, in the context of § 284 and its predecessors, prior decisions have used it to connote any culpable conduct that rises above mere negligence, not only objective recklessness. *Safeco* itself is in accord, remarking that "we have generally taken it to cover not only knowing violations of a standard, but reckless ones as well." *Id.* So is *Farmer*, which dealt only with the standard for "deliberate indifference" violations of the Eighth Amendment, without addressing the standards for knowing or purposeful violations. *See* 511 U.S. at 834-35.

Pulse acknowledges (at 37) that "knowing" misconduct is independently willful, and, under traditional tort principles, that was true even if there was a chance the harm might not have materialized. *See* RESTATEMENT (THIRD) OF TORTS: PHYS. & EMOT. HARM § 1, Cmt. (2010) ("A purpose to cause harm makes the harm intentional *even if harm is not substantially certain to occur*." (emphasis added)). This makes perfect sense. If an infringer like Pulse knows that a patent was infringed and valid because, as here, it copied the patented design and had taught away from it while trying and failing many other solutions to the problem, then it intended to cause harm and should be punished. There is always a chance that it might not succeed in inflicting the intended harm, but that does not excuse its conduct. District courts should still

have discretion to deter intentionally inflicted harm by enhancing damages.

C. No Authority Supports the Federal Circuit's Additional "Any-Defense-at-Any-Time" Approach.

1. The Federal Circuit has compounded *Seagate*'s error by holding that the "objective" prong is to be assessed based not on the facts the infringer actually faced at the time, but on any new defense that emerges years after the initial wrongful act. The upshot is that an infringer who acts in bad faith for years can nevertheless escape enhancement if it later develops a non-sham defense. No cases before *Seagate* and its progeny authorized that approach. As demonstrated previously, all the precedent from this Court, the regional circuits, and the district courts involved an infringer that actually relied on a defense when it acted. None addressed a situation where the infringer copied without a good-faith basis for doing so, but then escaped enhancement because of an unsuccessful trial defense developed more than a decade later. Indeed, even *Safeco*, which was the basis for the Federal Circuit's "objective" prong, looked only to the defense the defendant actually relied upon at the time in determining whether its actions were objectively baseless. *Safeco*, 551 U.S. at 70 n.20.

Traditional tort principles require analyzing recklessness based on the facts and circumstances that then faced the defendant. *See, e.g.*, Restatement (Third) of Torts: Phys. & Emot. Harm, § 2 (2010) ("A person acts recklessly in engaging in conduct if: (a) the person knows of the risk of harm created by the conduct or knows facts that *make the risk obvious to another in the person's situation*, and (b) the precaution

that would eliminate or reduce the risk involves burdens that are so slight relative to the magnitude of the risk as to render the person's failure to adopt the precaution a demonstration of the person's indifference to the risk.").

There is good reason to analyze an infringer's culpability based on the facts and circumstances it faced at the time. If an infringer copies the patent, steals the patentee's customers, and forces the patentee to sue by ignoring the patentee's pre-suit warnings, then a district court should have discretion to enhance, even if the infringer might have devised an eleventh-hour, non-frivolous justification. The infringer's bad conduct is something courts ought to deter. But if an infringer knows it can avoid enhancement, because it can hire a lawyer later to develop a non-frivolous defense, then it has nothing to lose from copying.

2. The United States cogently explains why the any-defense-at-any-time safe harbor lacks support and makes no sense. No such limitation appears in the statute, or appeared in predecessor statutes or decisions. As the United States notes (at 25): "the courts in construing those provisions overwhelmingly focused on the infringer's conduct and state of mind *at the time of infringement*." And as importantly, the United States shows (at 25) how such an any-defense-at-any-time approach "insulat[es] from enhanced-damages liability a significant class of misconduct that is properly viewed as particularly egregious." The Federal Circuit provided no authority or rationale when it added this extra rule. Worse yet, the United States demonstrates (at 29) that the Federal Circuit's rule conflicts with other areas of law, where a party's conduct is judged based on a "time-of-action" analysis. The rule in patent law should be no different.

D. *Seagate* is Wrong Even If Enhancement Has "Punitive" Purposes.

Pulse spends much time arguing that § 284 is only punitive, in an effort to distance this case from the text of § 284 and from *Octane*. But the issue is largely a red-herring. Section 284's text and historical practice require a flexible, totality-of-the-circumstances approach, even to enhancing for punitive purposes. So the Federal Circuit's two-prong test must fall for the same reasons that this Court struck down the same test for § 285 in *Octane*. Moreover, Pulse's bad faith infringement justifies punitive damages, regardless of whether § 284 is also compensatory.

1. As an initial matter, § 284 is not limited to purely punitive damages, because this Court has recognized that enhancement can also serve a compensatory role. *See, e.g., Teese v. Huntingdon*, 64 U.S. 2, 9 (1860) (permitting enhancement where the defendant "has caused unnecessary expense and injury to the plaintiff"); *Day v. Woodworth*, 54 U.S. 363, 372 (1851) (permitting enhancement where the defendant "has been stubbornly litigious"); *cf.* Albert H. Walker, TEXT-BOOK OF THE PATENT LAWS OF THE UNITED STATES OF AMERICA § 568 (2d ed. 1889) (explaining that enhancement "is not confined to awarding punitive damages, but is to be exercised 'according to the circumstances of the case'" (quoting the 1870 Act)).

Pulse cannot dismiss those decisions as "relics of a bygone era" (at 29) or by pointing to Section 284's mention of damages "adequate to compensate," because as Pulse admits (at 18), § 284 did not "alter in any way the existing practice in federal courts." Likewise, Congress' 1946 addition of a provision for attorney fees eliminated one burden imposed by "stubbornly litigious" infringers, but it left unaddressed the

general disruption to a patentee's business from having to file and prosecute a lawsuit (*e.g.*, employee distraction and time at depositions and document collection) and litigation expenses not recoverable as "costs" (*e.g.*, in this case, expert witness fees and e-discovery charges) and thus left a need for other recovery of such expenses, which are not addressed by a jury's damages award and can thus be awarded by the court without "reexamining" any jury finding. Indeed, the 1946 legislative history still discussed the compensatory purpose with approval. *See Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. 3, 15 (1946).

2. Even if § 284 was purely punitive, this would not limit enhancement to only "willful" infringement. Punitive damages are assessed based on "all the circumstances," not just "the act itself":

> In determining the amount of punitive damages, as well as in deciding whether they should be given at all, the trier of fact can properly consider *not merely the act itself but all the circumstances* including the motives of the wrongdoer, the relations between the parties and the provocation or want of provocation for the act.

RESTATEMENT (SECOND) OF TORTS § 908, cmt. e. In fact, *Exxon Shipping Co. v. Baker*, 554 U.S. 471 (2008), acknowledged that punitive damages can sometimes be based on "gross negligence," which is less than willfulness. *Id.* at 493.

Moreover, punitive damages certainly do not require the two-part *Seagate* test, which categorically prohibits enhancement if an infringer presents any non-sham defense at any time. Punitive damages can

be based on either the "defendant's evil motive ***or*** his reckless indifference," RESTATEMENT (SECOND) OF TORTS § 908(2), so bad faith is independently enough. Pulse's punitive damages cases similarly recognize that an improper motive is independently enough. *See Exxon*, 554 U.S. at 493 (explaining that "[a]ction taken or omitted in order to augment profit represents an enhanced degree of punishable culpability," which would certainly include bad faith patent infringement); *Milwaukee & St. Paul Railway v. Arms*, 91 U.S. 489, 493 (1876) (punitive damages permitted if the act is "done willfully, *or* was the result of that reckless indifference to the rights of others which is equivalent to an intentional violation of them" (emphasis added)).

More fundamentally, enhancement has always had a punitive component, yet nothing like the *Seagate* test has ever been required. Pulse provides no answer to that simple fact.

II. Allowing District Courts to Balance All Relevant Facts is Sound Policy.

1. The appropriate test for enhancement under § 284—one that brings the inquiry back to the flexible statutory text and gives district courts discretion to weigh all the relevant factors that were historically applied before *Seagate* and collected in *Read Corp. v. Portec*, Inc., 970 F.2d 816 (Fed. Cir. 1992)—is also sound policy. Everyone agrees that the patent system entails a delicate balance. *See, e.g., Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1305 (2012). Patents promote innovation by allowing inventors to recover their investment in new technology. For a small, family business like Halo, patents are its life blood for its flagship products. They are the only thing that prevents a larger company, like

Pulse, from stealing its invention and taking its customers. But threats to companies involving bad patents or questionable allegations can impede innovation by unnecessarily diverting valuable resources.

There is no bright-line rule that can resolve this tension for all cases. Instead, district courts should be allowed to do what they did for well over a century before *Seagate*—balance the particulars of the case before them and consider, among other things, whether enhancing damages based on *this* infringer's conduct would promote or hinder innovation.

A flexible enhancement standard encourages, but does not require, companies to pursue commercially-reasonable behavior when faced with patent rights of another party. This behavior might include discussing the patent with its owner, taking a license, designing-around and improving upon the patented technology, or even challenging the patent's validity at the Patent Office under one of the new post-grant proceedings under the America Invents Act. Pulse's proposed rule, by contrast, would encourage infringers to copy others, do nothing, and deal with the consequences if and when the patent owner's injury becomes great enough to force a lawsuit—with ordinary damages (perhaps the same royalty the infringer would have paid if it took a license before the suit) as the worst-case result. Pulse's rule will add to the concerns about excessive patent litigation, rather than promoting behavior that avoids costly lawsuits.

None of this is to say that a party has an affirmative duty to seek legal advice or obtain an opinion of counsel. The point is that the party should at least scrutinize its behavior and take action that is commercially reasonable given the totality of the circumstances. After all, the district court has discretion to

look at the whole picture before enhancing. If the infringer learns about the patent, copies it, and has no basis for thinking its conduct lawful, then the district court should have discretion to enhance damages to address such behavior.

2. A flexible inquiry is the one most consistent with the purpose of § 284. Congress enacted the enhancement statute both to discourage copying and to ensure that an infringer could not flout a patent while owing no more than if it had done the right thing and stopped infringing. *See* S. Rep. No. 79-1503, at 2 (1946) (explaining that enhancement would "discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty"). That purpose would be thwarted if the infringer knew that it could avoid enhancement simply by developing a non-sham defense, because, as the United States points out (at 26), an infringer can do this in almost every case.

Pulse says (at 49-50) that copying is "extremely rare" and that "rational businesses" do not launch products where there is a significant risk of infringement. One wonders if that is really true—after all, Pulse itself saw Halo's patent, copied, yet launched its product with no investigation. Even if Pulse were correct that copying is rare, this bad-faith conduct should be subject to enhanced damages when it occurs.

All of Pulse's (or its *amici*'s) concerns can be accounted for in a flexible test carried out by the district court. Parties who want to proactively investigate and challenge a patent still can, either by filing a declaratory judgment or pursuing the new, less expensive option of challenging it in an *inter partes* review or other post-grant proceeding at the Patent Office. Doing so may be a strong indication of subjective good

faith, as in many of this Court's cases cited above. But parties also would not have to investigate patents where it was unreasonable to do so. For example, a party who independently develops its product, receives a vague notice letter with no indication of which of the product's thousands of features might infringe, requests more information, but receives nothing would not be subject to enhancement if it did nothing more. That is not our case, of course, because Pulse copied Halo's patents and so knew exactly why Halo seeking to discuss a license, and because there was no evidence that these products implicate other patents.

Pulse is wrong to suggest (at 46) that parties would have to do all their analysis immediately upon learning of the patent or never be able to rely on it later. Our point on later-developed defenses is simply that they should not be a *per se* bar to enhancement. The Federal Circuit used to treat "closeness of the case" as one factor to be weighed with the others. *See Read*, 970 F.2d at 827. When there is no other egregious conduct, a later-developed defense might well justify denying enhancement. But when presented with evidence of bad-faith conduct, like copying, the district judge should be able to view the case as a whole and enhance if the totality of the circumstances justify it.

Allowing the judge to balance all relevant facts does not render the standard too unpredictable or vague. Many of the relevant factors require nothing more than the application of common sense—*e.g.*, don't copy a patent without thinking about whether it is lawful; don't steal a smaller competitor's customers by taking its technology; don't ignore invitations to license a patent that you copied and that has withstood

post-grant Patent Office review for its validity. Flexible standards are long known in the law, and infringers that act responsibly have nothing to fear from a district court's sound judgment in applying § 284.

A totality of the circumstances approach will also not exacerbate the patent troll problem. In the case of a true patent troll, a party is faced with the decision of paying a royalty or spending considerably more defending a baseless lawsuit. In that situation, the possibility of enhancement (which could only become relevant if the patent is found to be valid and infringed) is not a significant factor in the accused infringer's decision to pay the royalty or fight. If the suit is actually baseless, then enhancement will never enter the picture. And even if the defendant were to lose, enhancement is under the competent control of district judges, and there is no reason to think that they cannot properly evaluate enhancement, just as they do attorney fees. Pulse cites no empirical evidence that there was a problem with runaway district judges enhancing before *Seagate* and its progeny, and there will not be one after this case.

* * *

Congress's goal in making enhancement discretionary in 1836 was to ensure that courts treated each case on its own facts, rather than applying a one-size-fits-all rule to all cases. But the Federal Circuit's current *per se* rule precluding enhancement if the defendant presents any non-sham defense forces courts to treat the worst copyist the same as the innocent company who never knew the patent existed. That returns us to the very type of unjust regime criticized in *Seymour* and eliminated by Congress. The Court should reject that approach.

III. Vacatur is Necessary to Permit the District Court to Reconsider Enhancement.

Pulse's conduct fits squarely within the type of "egregious" behavior that should warrant enhanced damages. The jury unequivocally found that Pulse acted in bad faith. It found, by "clear and convincing evidence" (which the instructions said meant "highly probable") that Pulse "actually knew, or it was so obvious that Pulse should have known, that Pulse's actions constituted infringement of a valid patent" and that Pulse's behavior fell below "the standards of commerce for its industry." (J.A. 174-75, 191.) The jury's inducement verdict (rendered before *Commil*) also demonstrates bad faith because it was instructed that it could not find inducement if Pulse "believed that the acts it encouraged did not infringe the patents, *or that the patents were invalid.*" (*See* Dkt. No. 470 at 17; J.A. 185-91.) So the jury found that Pulse believed the patent was both infringed and valid, yet continued to infringe. And the district court specifically upheld the finding that Pulse did not subjectively believe its invalidity defense. (Dkt. No. 561 at 11-12.)

Pulse never appealed this findings and does not challenge them here. Instead, Pulse's brief simply ignores that it learned of the patents in 1998, copied, yet did nothing for four years. (*See, e.g.*, J.A. 62-63, 148-53; Dkt. No. 464 at 87.) Pulse *knew* it was infringing during that period—it had copied, after all, so it did not need Halo to tell it what it already knew. In fact, Pulse has never presented any defense that Halo's patents do not cover every accused product, and its corporate representative admitted as much at trial. (J.A. 154-55, 179-91.) Although the parties debated whether some of Pulse's sales, which were negotiated and contracted for in the U.S. but involved foreign

manufacturing and delivery, occurred "within the United States" under 35 U.S.C. § 271(a), there was no doubt that Pulse's U.S. importation did infringe, and the jury found that Pulse further induced infringement by encouraging customers to import many of the foreign-delivered parts into the United States. (J.A. 179-91.)

After four years of having copied but done absolutely nothing, Pulse received Halo's letters in 2002, and had an engineer who was unfamiliar with the relevant legal principles conduct a "cursory" investigation. (J.A. 66-67, 132-34, 146-148, 195-98.) But even then, Pulse never identified any decision-maker who actually relied on this analysis and admitted that it never made any "conscious decision" that it had a right to keep infringing. (J.A. 66-67, 146-48.) Pulse thus held no belief that the patent was invalid before it was sued in 2007, just as the jury found.

Pulse's post-suit behavior was little better. It presented an obviousness defense that conflicted with its own prior patents (which taught away from the invention), its own failed efforts to solve the cracking problem, and a Patent Office reexamination decision upholding validity over materially similar prior art. (Halo Br. at 4-6.) The district court rejected the defense both because Pulse waived its Rule 50 challenge to the jury's adverse findings, and because, even if Pulse hadn't waived, the defense still had no merit. (Pet. App. 45a.) Yet Pulse kept infringing for almost a year after the jury resolved validity and infringement against it, until the injunction went into effect.

These facts are precisely the sort of egregious conduct—rising well above mere negligence—that should have given the district court the ability to enhance damages.

CONCLUSION

For the reasons above, this Court should vacate the judgment and remand.

Respectfully submitted,

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